



**NASDAQ DUBAI BUSINESS RULES:
RULEBOOK 2
DERIVATIVES, EXCHANGE TRADED COMMODITIES, DEBT
SECURITIES, STRUCTURED PRODUCTS AND COLLECTIVE
INVESTMENT FUNDS**

CONSULTATION PAPER No 1 of 2017



OCTOBER 2017

WHY ARE WE ISSUING THIS PAPER?

1. Nasdaq Dubai launched its equity derivatives market on 1st September, 2017. Since the launch, 2,646,796 derivative contracts have been traded on the derivatives market. The market liquidity is currently provided by local brokers and their members. Nasdaq Dubai has appointed three Market Makers, Shuaa Capital International Limited, Al Ramz Capital LLC, and First Abu-Dhabi Bank PJSC to provide liquidity to the market.
2. Nasdaq Dubai intends to expand its derivatives market with new products such as regional index futures and single stock futures. Nasdaq Dubai aims to offer these products to regional and institutional investors.
3. As a result of this expansion, some institutional clients have indicated their interest to participate in Nasdaq Dubai derivatives market through General Clearing Members (GCM). Nasdaq Dubai has identified and is currently in advanced discussions with certain institutions to become GCM on Nasdaq Dubai.
4. Nasdaq Dubai also explored other solutions that can be introduced within Nasdaq Dubai clearing house to improve the experience and participation of institutional clients in the derivative market and enhance liquidity.
5. One of the intended solutions to be offered is a direct clearing model. Direct clearing by customers is a concept that has been introduced and implemented on some clearing houses including the Intercontinental Exchange (ICE) under the Sponsored Principal model, and Eurex Clearing under the ISA Direct model.
6. The concept allows customers to participate directly in the clearing of their transactions executed on the exchange as counterparty to the clearing house within the requirements of the Business Rules.
7. The concept enhances customer protection by providing customers with a choice in the level of cost associated with clearing and protection associated with default and credit risks.
8. Nasdaq Dubai considers that the concept will benefit institutional clients and has taken steps to introduce the concept under a proposed Direct Clearing Customers model.
9. Nasdaq Dubai proposes to amend the Nasdaq Dubai Business Rulebook 2, Derivatives, Exchange Traded Commodities, Debt Securities, Structured Products and Collective Investment Funds (Rulebook 2) to include the concept of Direct Clearing Customer.
10. Based on the proposed amendment, the Direct Clearing Customer will be capable of entering into contracts directly as counterparty to Nasdaq Dubai in respect of the Direct Clearing Customer's transactions.
11. The Direct Clearing Customer will have separate positions, margin and asset accounts in Nasdaq Dubai clearing system.

12. In line with Rule 5.6.5 of the DFSA's Authorised Market Institution Module (AMI), Nasdaq Dubai is undertaking this public consultation on the proposed amendments to its Business Rulebook 2.

13. The proposed amendment incorporate the following:

- i) Introduction of the Direct Clearing Customer concept;
- ii) Introduction of a new customer account type relative to the Direct Clearing Customer;
- iii) Introduction of the Guarantee Agent
- iv) Other update and/or amendment of the rules to reflect clearer drafting.

WHO SHOULD READ THIS PAPER?

14. This Paper will be of interest to existing Members of Nasdaq Dubai, Issuers admitted to trading on Nasdaq Dubai and potential Issuers and institutional clients. It will also be of interest to, advisors of Issuers (existing or potential) and to the general investment community and public.

HOW TO PROVIDE COMMENT?

15. All comments on the consolidated Nasdaq Dubai Business Rules should be in writing and forwarded to compliance@nasdaqdubai.com on or before **Tuesday, 14 November 2017**.

16. Comments may be provided anonymously.

WHAT HAPPENS NEXT?

17. Once all comments are received, Nasdaq Dubai will consider if any further amendments are required to the proposals set out in the amended Rulebook 2. Nasdaq Dubai may then proceed to adopt the Rulebook, following the required approval of the DFSA. The proposed Rulebook 2 shall not be acted upon in its current state until the Rulebook has been adopted by Nasdaq Dubai.

TERMINOLOGY IN THIS PAPER

18. Capitalised terms in this Paper have the same meaning as those terms defined in the proposed Rulebook. Terms not defined in the proposed Rulebook are identified and defined throughout this Paper.

RELIANCE ON THIS PAPER

19. This Paper has been prepared for the purposes of public consultation only and should not be relied upon in interpreting the proposed Rulebook.

SPECIFIC ISSUES FOR CONSIDERATION

20. The existing Rulebook 2 has been used as the base document for the proposed amendment.

21. The terms "Direct Clearing Customer", "Guarantee Agent", "Direct Clearing Customer Agreement", "Segregated Clearing Account" and all terms relative to the concept have been defined in the proposed amendment to Rulebook 2.

22. The term “Clearing Member” has been expanded to include “Guarantee Agent” only in relation to a Direct Clearing Customer.
23. The term “Admitted Security” has been replaced with Admitted Financial Instrument only where such replacement is relevant to encompass other financial instruments within the scope of Rulebook 2.
24. The term “Counterparty” has been amended to correct previous drafting error.
25. The Direct Clearing Customer has been included throughout the Rulebook with respect to relevant rule requirements.
26. The Direct Clearing Customer is not a Member of Nasdaq Dubai and will not be considered a Member for the purpose of relevant DFSA Rules and Nasdaq Dubai Business Rules.
27. All transactions executed in the market for the Direct Clearing Customer will be executed through Trading Members only. Direct Clearing Customer direct participation in the market is with respect to its clearing obligations.
28. Direct Clearing Customers will be included on notifications disseminated through Nasdaq Dubai Regulatory Announcement System (CANDI). Nasdaq Dubai will nonetheless rely on Guarantee Agents to ensure that Direct Clearing Customers receive all notifications relevant to Direct Clearing Customers.
29. Direct Clearing Customers will act as principals in respect of their activities on Nasdaq Dubai.
30. Nasdaq Dubai is excluded from all liability in respect of its decision to suspend or terminate a Direct Clearing Customer’s account or the right of the Direct Clearing Customer to operate the account, or to declare a default of the Direct Clearing Customer or any decision of the Disciplinary Committee or Appeals Committee.
31. Rule 2.9.4 (3) was deleted to amend a drafting error which included Article 27 of the Markets Law as an inclusion clause rather than an exclusion clause.
32. The Membership application process for Members of Nasdaq Dubai has been separated from the application process of the Direct Clearing Customer to clarify the classification of one being a Member and the other being a Customer of Nasdaq Dubai. The Membership application process is being amended to begin with a signed membership application form and finish with a signed membership agreement.
33. Eligibility criteria of a Guarantee Agent are set out under the proposed amendments.
34. A new Chapter 4 has been added to the proposed amended Rulebook 2 which sets out specific requirements for Direct Clearing Customers including the qualifying criteria, application and approval process, and continuing obligations of the Direct Clearing Customer.
35. The approval given by Nasdaq Dubai with respect to a Direct Clearing Customer is an approval for the Direct Clearing Customer to the use of a Segregated Clearing Account within Nasdaq Dubai clearing system.
36. The range of currencies by which Nasdaq Dubai made provide Orders have been extended to include other currencies such as the Emirati Dirhams.

37. Direct Clearing Customers will be liable to have open a bank account for the purpose of settling its cash obligations to Nasdaq Dubai with any of the Settlement Banks approved by Nasdaq Dubai and provide Cash Margins to Nasdaq Dubai.
38. Circumstances and procedures for suspending a Segregated Clearing Account and the rights of the Direct Clearing Customer to operate the accounts are provided under the proposed amendments.
39. Circumstances and procedures for closing a Segregated Clearing Account and terminating the rights of a Direct Clearing Customer to operate the account are provided under the proposed amendments.
40. The proposed amendments set out all such actions that Nasdaq Dubai is entitled to take in the event of a default being declared against a Direct Clearing Customer.

We look forward to receiving any feedback you may have relating to the proposed amended Nasdaq Dubai Business Rulebook 2 on or before Wednesday, 8 November, 2017.

NASDAQ DUBAI LIMITED

PLEASE SUBMIT ALL COMMENTS AND FEEDBACK TO NASDAQ DUBAI COMPLIANCE TEAM AT
COMPLIANCE@NASDAQDUBAI.COM